Session 2. Why international business comes to developing countries?

FDI from the BRICS

Questions of the session

- Ground reasons of international business investment activity in developing countries;
- New phenomenon of Investments movement and the role of BRICS;
- Retrospective analysis of international business attitude towards the poorest countries;
- the regulation of governments and international community with respect to international business operating in developing countries
- BRICS Business Developing Countries' markets integration strategies

The main reasons

- resources, costs, finance and marketing opportunities, which determine the efficiency of doing business, which allow the international business to increase the revenue and extract the profit in developing countries
- monopoly power that allows corporations to make high profits;
- low wages,
- unenforced labour legislation,
- lack of control of environmental pollution

The efficiency seeking

- efficiency seeking is one of the main determinants of expanding business investment activity abroad, including to the markets of developing countries

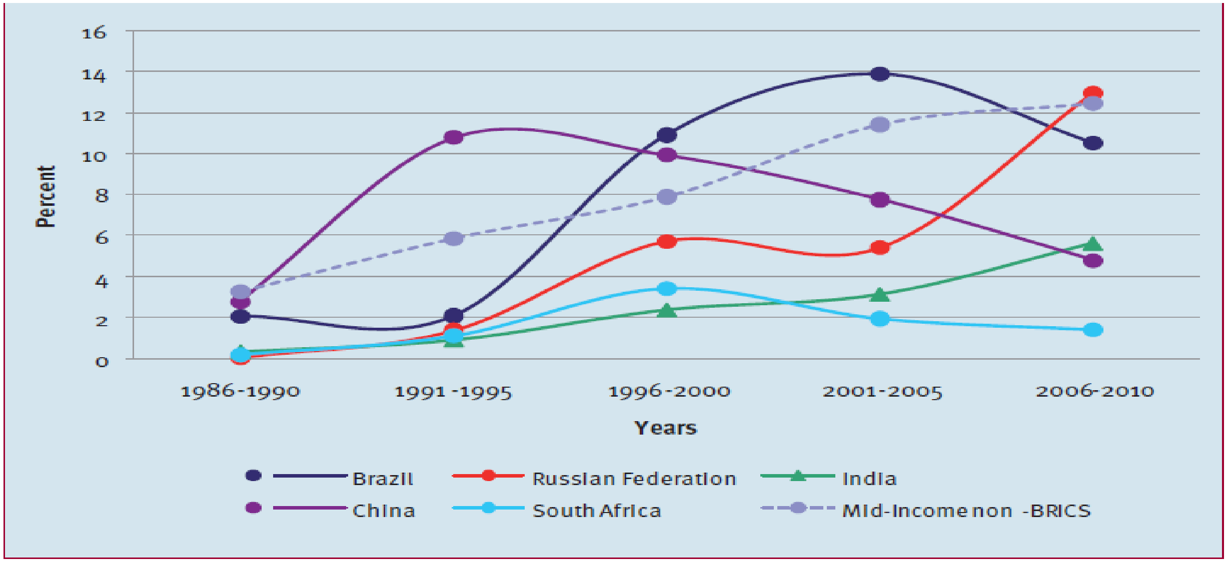
Government policies and behaviors and investment decisions

	Factors that shape opportunities and incentives for firms to invest		
	Government has strong influence	**Government has less influence**	**International development cooperation**
Costs	• Corruption • Market-determined prices of inputs • Taxes • Distance to input and output markets • Regulatory burdens, red tape • Economies of scale and scope associated with particular technologies • Infrastructure and finance costs • Labor market regulation	- Market-determined prices of inputs; • Taxes; • Distance to input and output markets; • Regulatory burdens, red tape; • Economies of scale and scope associated with particular technologies.	• Infrastructure development;
Risks	• Policy predictability and credibility • Consumer and competitor responses • Macroeconomic stability • External shocks • Rights to property • Natural disasters • Contract enforcement • Supplier reliability • Expropriation	- Consumer and competitor responses • Macroeconomic stability • External shocks • Rights to property • Natural disasters • Contract enforcement • Supplier reliability.	• Structural reform support;
Competition barriers	• Regulatory barriers to entry and exit • Market size and distance to input and output markets • Competition law and policy • Economies of scale and scope in particular activities • Functioning finance markets • Infrastructure.	• Market size and distance to input and output markets • Economies of scale and scope in particular activities	• Aid for trade

BRICS as a new type of investors in international investment architecture

- Most FDI comes to China, India, Indonesia and other emerging economies.
- Emerging economies are increasing their investment presence in developing countries.

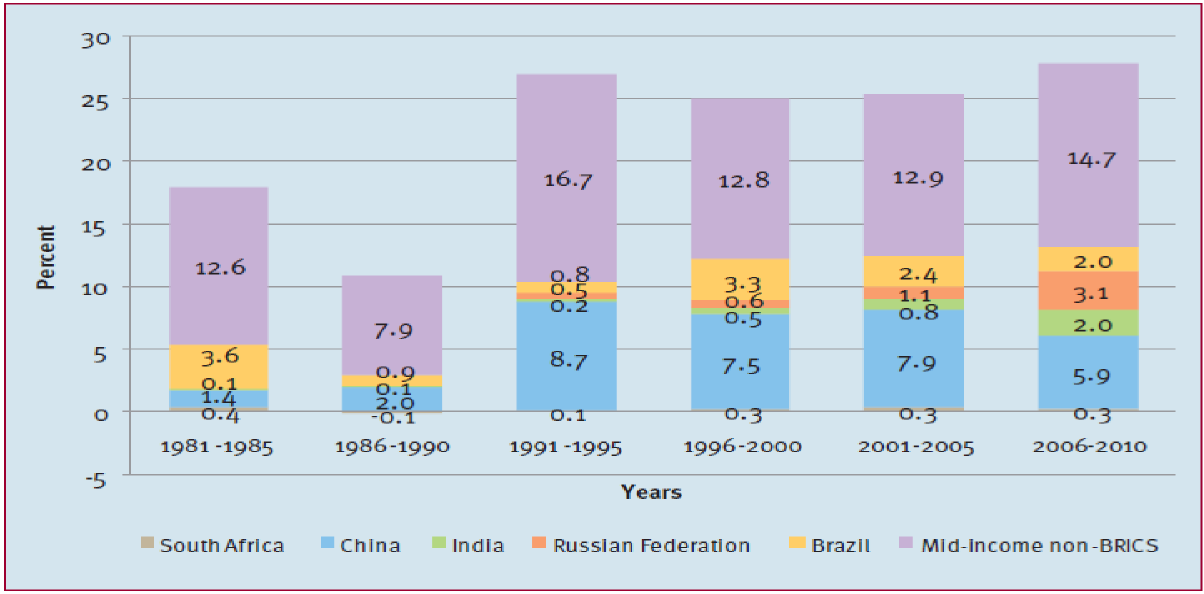
Inward FDI in BRICS and other Middle-Income Countries



Greenfield FDI in the BRICS and other middle income economies, 1986-2010 (5-year averages)

Source : Naude et al. (2012) based on UNCTAD Stats online

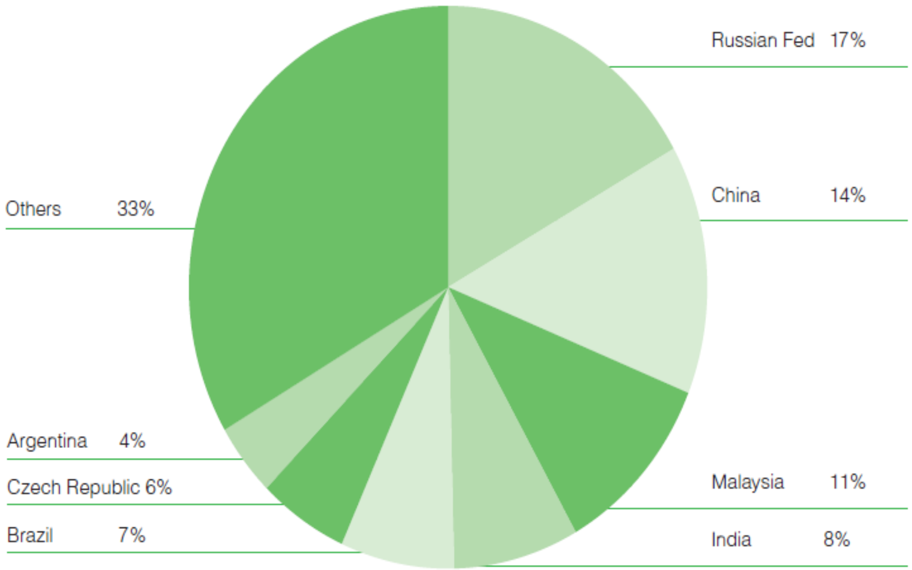
The BRICS share in global inward FDI compared to other middle income economies, 1980-2010 (in %)



Source : Naude et al. (2012) based on UNCTAD Stats online

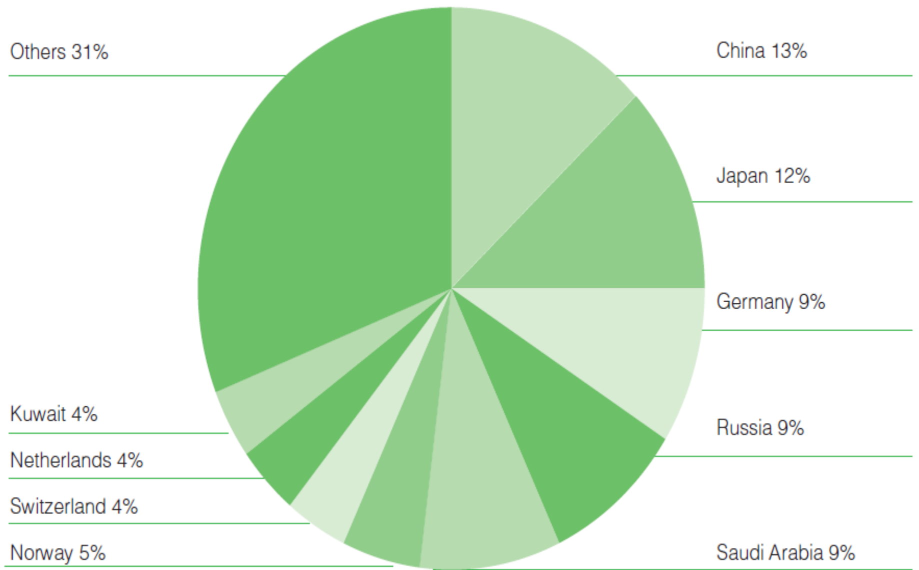
Capital inflow and outflow to developing countries

South Region countries investing in the South, M&A value



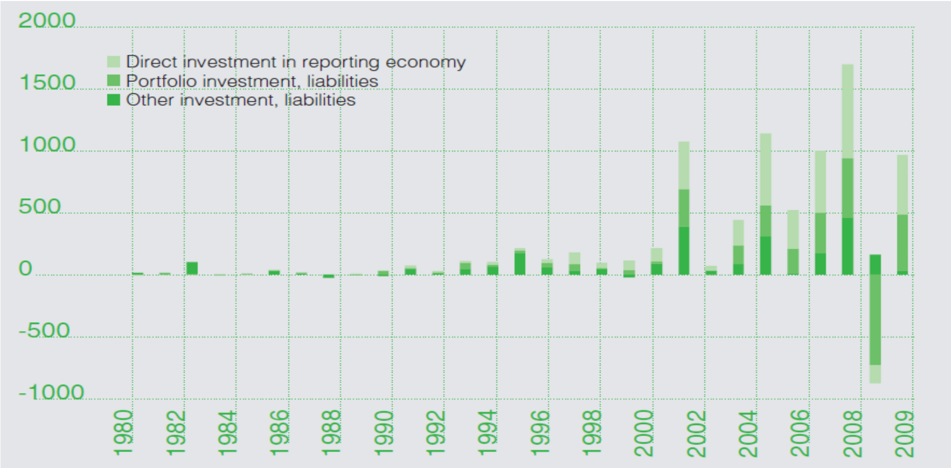
Source : International Financial Statistics

Main Exporters of Capital



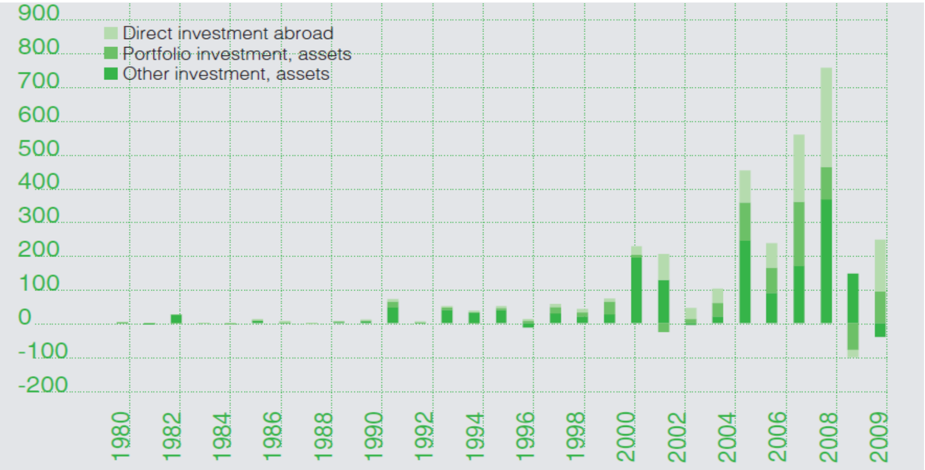
Source : International Financial Statistics

Capital inflow changes to middle-income countries



Source : International Financial Statistics

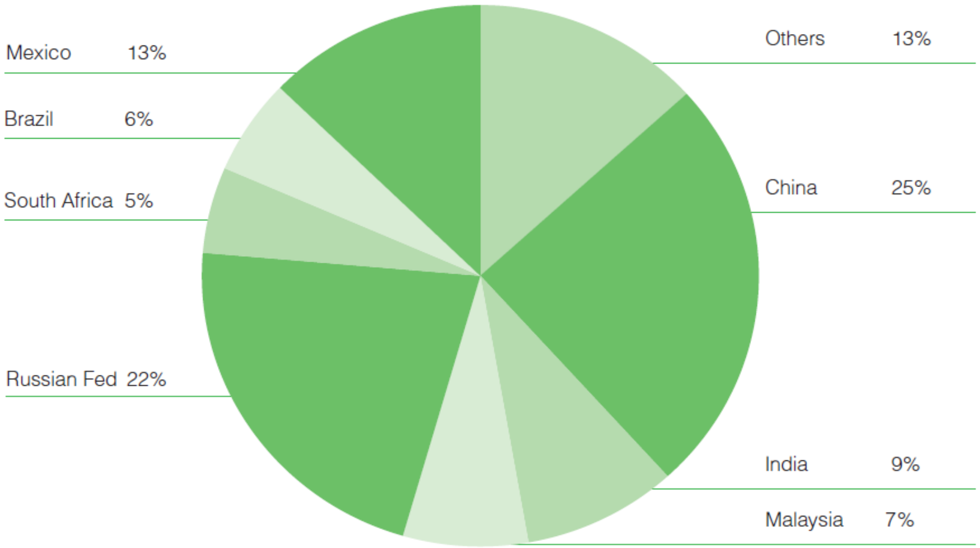
Capital outflow changes to middle-income countries



Source : International Financial Statistics

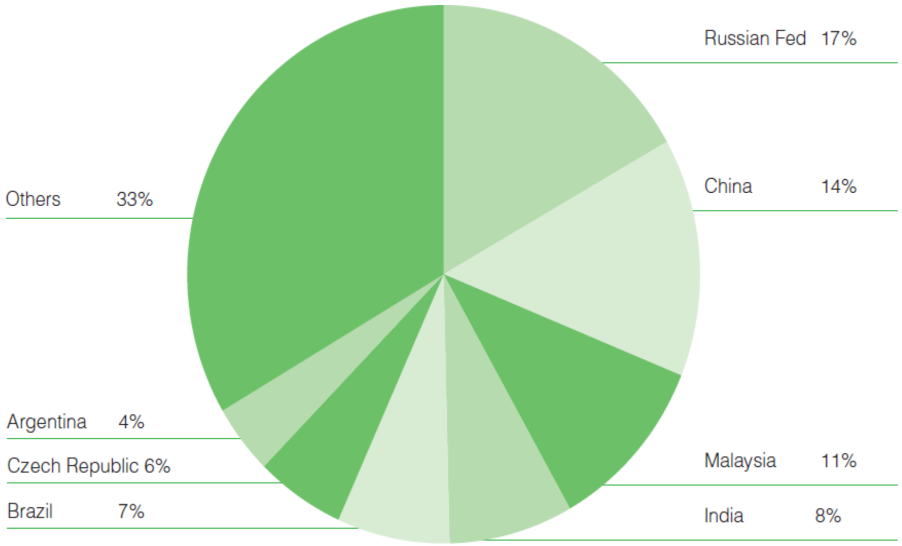
North or South?

Emerging economies, investing in the North by reported value of M&A deals



Thomson One M&A deals data

Emerging economies, investing in the North by reported value of M&A deals



Thomson One M&A deals data

- India and China implement 20.2% each of all South-North M&A deals;

- Russia, India, China, Brazil are responsible for a great part of the movement of South-South M&A activity;
- India is the major recipient of South originated deals with 9.4% of the total number of transactions;
- China, a favourite destination for deals originated in the North, only receives 4% of the total number of deals originated in the South.

Corporate governance’s beneficial impact

- Jensen, 2006:
  - A study of foreign investment in 100 countries since 1970 has concluded that investors prefer countries that are stable and where democratic institutions and legal safeguards are in place.
- Countries that want to attract foreign direct investment (FDI), therefore, have an obvious interest in fostering good governance practices.
- Similarly, responsible investors are likely to operate in such a way as to contribute to these goods.

Encouraging development-aware corporate business models

- Mode of cooperation, expressed by companies , which see themselves as development actors, and plan their business processes with this in mind.
  - NB: this approach is very different from the 'corporate social responsibility' agenda (Davis, 2008).
- Donor agencies as well as recipient countries need to understand better why it is that some companies are proactive in adopting business approaches that are developmentally beneficial.
  - Porter and Kramer (2011) have argued that companies are in pursuit of some 'higher form of capitalism'.
- Companies innovating in the development space are doing so not for altruistic motives, but to secure profitable growth and protect their license to operate at existing sites, according to the author's interviews with industry representatives.

Examples

Heineken: This company has developed a model for economic impact assessment that allows local companies to carry out scenario analyses that enable management teams to include societal opinions in their business decisions more explicitly

Reuters: subscription-based service that uses mobile phone SMS technology to provide small farmers with tailored information about crop types in markets. The service reduces information asymmetry in agricultural markets and helps small farmers get a greater proportion of the value of their produce. Reuters estimates that the service is now used by more than 300,000 farmers in rural India.

Anglo American : Socio-Economic Assessment Toolbox (SEAT), to help operations benchmark and improve the management of issues such as local employment, the inclusion of disadvantaged groups, training, procurement and community social investment

What makes companies to adopt development –aware business approaches?

- Voluntary Principles on Business and Human Rights

The 'Beira Agricultural Growth Corridor' in Mozambique appears to be one good example of such joined-up thinking on development. This initiative was launched at the World Economic Forum in January 2009 (BAGC 2010) as a venture between the private and public sectors to develop the port of Beira and the trade corridor that services it. The goal is to create 'a successful and diversified commercial agriculture sector' by 2030.